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ABSTRACT

Undertrained workers, not dislocated workers, are the real problem in the American economy. The vast majority of the workers affected by structural change in the American economy appear to make employment transitions fairly swiftly and smoothly, with no need for public intervention. Undertrained workers, mostly employed and scattered in all industries, result from underinvestment in training by both employers and the workers themselves. In addition, worker-financed training at the beginning of a career and on-the-job training in midcareer will no longer be adequate. Midcareer formal training will become a necessary part of success, but it will be difficult for workers to finance. Since 1971, the French have operated a national system for financing training that creates an effective public-private partnership to address these problems. The key element is an "obligation to spend" whereby each employer must expend funds to maintain and expand the skill level of the French labor force. A national system should be set up in the United States that embodies a sustained level of investment in all human resources. (YLB)

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Keynote Speech to the National Alliance of
Business Conference on Dislocated Workers
Rochester, Michigan
June 21, 1982

DISLOCATED WORKERS AND THE AMERICAN FLEXICONOMY

By

Marc Bendick, Jr.

Research Paper

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

In asking me to deliver the remarks which keynote this meeting, the organizers of this conference displayed either a Machiavellian talent for subtlety or a mischievous sense of humor. Here we are at a conference on dislocted workers, in Detroit (which film footage on the CBS evening news solemnly assures the nation every third night is the world's largest exporter of economic dislocation), and I stand before you to deliver one simple message: Dislocated Workers are not the real problem. If we as a nation gear up to solve the problem of dislocated workers, we will run the risk of failing to solve the real problem.

Let me in the next 15 minutes try to convince you that these statements are true and to identify some directions for national action which I think will address the real problem and the problem of dislocated workers at the same time. My theme is simply this: Ask not what your country can do for dislocated workers; ask where dislocated workers fit into the American flexi-conomy.

A Look at Some Numbers

Let me start with some numbers. About a year ago, the National Commission for Employment Policy in Washington asked me to look at some nationwide data to tell them how many dislocated workers there are in the United States, who and where they are, and what their problems are. Everyone was aware--again because of the CBS evening news--of the existence of the Gang of Four:

- changing production technology (robotics)
- changing import competition
- changing consumer demands (e.g., in reaction to changing energy prices)
- changing industry mix (from manufacturing to services)

But nobody had much information on the magnitude of impacts on the labor force which could be traced to the ravages of this gang.

So I cranked up my computers, and, lo and behold, the answer came back: Quite a lot, but not very many. That is, there clearly is a great deal of structural change going on in the American economy, due to the Gang of Four. But the vast majority of the workers affected by that change appear to make employment transitions fairly swiftly, fairly smoothly, and without any manifest need for public or community intervention. I found, in particular, that among unemployed persons, the fact that his or her industry or occupation is in structural decline had very little power to predict that the person would become stuck in unemployment of unusually long duration. In fact, workers from declining industries and occupations nationwide comprised a smaller proportion of long-term unemployed persons than they did of short-term unemployed persons. And--with one exception I will discuss in a minute--dislocated workers who suffer long-term unemployment represented only about 3 percent of the labor force in their own industries, less than 2 percent of the nation's total unemployed, and less than one percent of the U.S.'s total labor force. For the majority of workers dislocated by economic change, that remarkable institution the private labor market seemed to be working remarkably well.

There are exceptions to this rosy picture, of course. If there were not, we would not be meeting together today. The automobile industry was the prime exception, with a very high proportion of its labor force caught in unemployment of long duration and not making a smooth transition to alternative work. The auto industry is the one place where all members of the Gang of Four struck at the same moment, so some commentators attribute the unusual problems of auto workers to the magnitude and rapidity of dislocation. These same commentators usually go on to say that as soon as this magnitude of dislocation spreads to other industries, then their work forces too will start to pile up in long term unemployment--that is, the auto industry is a harbinger of a nationwide trend.

My own interpretation is quite different. I see auto workers encountering adjustment problems not because of the rapidity and magnitude of structural economic change in their industry but because of their own lack of preparation for change. Auto workers are piling up in long-term unemployment not becuse they come from the auto industry but because

-- they lack solid general educational backgrounds (with perhaps one-third lacking high school diplomas, and even many who are high school graduates weak in basic skills); and

-- they lack marketable job skills (having typically been semiskilled machine operatives with little opportunity to acquire skills).

It would not matter if such workers were laid off from the fastest-growing industry in the nation; they would still have reemployment difficulties. And conversely, workers with skills in high demand can become readily reemployed--and at good wages--regardless of whether they come from a growing or declining sector.

The Tip of Which Iceberg?

The significance of this point is that it suggests a very different strategy for dealing with the problems of unemployed auto workers than one which focuses on the ravages of the Gang of Four. This strategy says: Don't worry about these workers because they are dislocated. Don't worry about these workers because their industry is in decline. Worry about undertrained workers whether they are in a declining industry or a growing industry. Worry about undertrained workers whether they are unemployed or not. It is in this sense that I began this talk by asserting that dislocated workers are not the problem the nation ought to be trying to solve. Today's unemployed auto workers are not the tip of an iceberg of hundreds of thousands of future long-term unemployed workers coming from a handful of shrinking industries. They are the tip of an iceberg of millions of undertrained American workers, scattered in all industries and most of them employed!

If my diagnosis of this problem is correct, then there is a need to rethink very carefully the direction in which we go searching for public solutions. The past decade has seen a proliferation of federal income maintenance programs for various categories of dislocated workers. There are 22 such programs on the books ranging from the broadly-focused Trade Adjustment Assistance program to the narrowly focused Redwood Parks program to assist lumbermen in two California counties. This proliferation of programs is mute testimony to the political pressure which the threat of economic change generates. Plant closing laws, now on the books in two states and under discussion in 27 more, represent a second manifestation of the same pressure. Both these types of programs, I assert, are fundamentally wrong-headed. Many commentators have called them wrong-headed because they are "neo Luddite," attempts to thwart technological or economic change. But my quarrel with them is even more basic--that they are structured in terms of dislocated workers and declining industries, which, I have been arguing, are the wrong categories, the tip of the wrong iceberg. Son-of-CETA legislation is now moving through the Congress, and it is virtually certain to have a dislocated workers title in it. In many of the hard-hit communities in Michigan and Ohio, and through the efforts of many of the individuals in this room, this legislation will provide important help to many workers in real distress. But it still is barking up the wrong tree.

Failure in the Market for Human Capital Investment

What then is the right tree? Where should the nation be looking for an approach that solves the real problem?

I would start by asking, "Why are workers undertrained?" This question must in turn be split into the questions of why employers don't invest enough in training their workers and the question of why workers don't invest enough in training themselves.

In the case of employers, it's a question of the return on their investment. When workers are free to move from company to company, it is very risky for an employer to spend thousands and thousands of dollars to give a worker a skill in great demand, because that firm's competitor will try to hire that worker away the minute his training is complete. When all employers together react to this fact, we get a situation where everyone needs a skilled labor pool but nobody will pay for it.

As for employees, we do see a great deal of self-investment by workers. When a high school graduate goes to college, or when you or I take a job despite a low wage but "because it is good experience," that is precisely what is going on. But in an era in which the Gang of Four will be making forays, these two types of worker-financed training--formal training at the beginning of a career and on-the-job training in midcareer--will no longer be adequate. It is likely that periods of formal training in midcareer will become a common and necessary part a work career in the last years of the twentieth century and the early years of the twenty-first.

Such bouts of midcareer formal training are difficult for workers to finance on their own. First, they require quite a cash flow, both to pay for the instruction itself and to support the worker and his or her family while the training is proceeding. This can be a particularly major problem if the worker wishes to undertake retraining when unemployed, when such cash flow is tightest. Second, because formal midcareer training is very expensive, individuals may be reluctant to undertake such a sizeable investment when there is no certainty that it will pay off. And finally, there is a problem of information: Individuals may not be well enough informed about trends in the labor market to pick the right field to be trained in.

And yet, despite the fact that neither employers nor employees are well set up to finance midcareer retraining, the need for it remains and grows. To fill this gap, it is appropriate to turn to the public sector.

Time for Some French Lessons

In search of a model for how public action can fill this gap, I spent last April in Paris. (It was dirty work, but someone had to do it.) Since 1971, the French have operated a national system for financing worker training which creates an effective public-private partnership to address exactly the problems I have outlined.

The key element of the system is what the French refer to as an "obligation to spend" enforced by a tax penalty if that obligation is not met. Each employer of ten or more employees has, by law, an obligation to expend an amount equal to 1.6 of its total wage bill to maintaining and expanding the skill level of the French labor force. If the firm chooses to train its own workers and spends at least the 1.6 percent minimum, then its obligations are discharged. Or the firm may meet the requirement by participating in and financially supporting an industry-wide training fund (usually operated cooperatively between employers' associations and trade unions). Or the firm may donate the funds to a government training center. But the firm might as well spend it on training, because if it fails to meet its obligation to spend, then the unspent balance of the 1.6 percent is due to the government as a payroll tax.

One of the advantages of such an approach is its flexibility and decentralization of decisionmaking. Funds may be used for prevention training (to avoid layoffs by retraining workers for new products and processes), for the training of newly hired workers (including apprentices), for occupational advancement of

workers, for the maintenance of old skills or the acquisition of new ones. No vast amounts of money flow into and out of the public treasury, and no government plans or decisions constrain what a firm may do. Yet each firm has a profit incentive to use its training resources wisely, and all firms together are required to maintain a high level of sustained investment in the French workforce.

If the United States were to adopt a similar "obligation to spend" approach, we would move a long way toward addressing the problems of which the dislocated workers of Michigan and Ohio are a visible and important tip of the iceberg. And such a proposal is by no means a political absurdity. The leadership elements of the business community should be as enthusiastic about this approach in the United States as they are in France. After all, most major corporations already invest heavily in training. Their obligations under this system would already be discharged by their current level of activity, while their less active competitors (who have been stealing their staff) would be forced to carry their fair share. At the same time, the leaders of labor should be enthusiastic about a system which assures a sustained level of resources to make workers participants in and beneficiaries of technological change, not victims of it. Taxpayers stand to gain from reduced unemployment insurance and public assistance claims, and we all stand to gain from enhanced national productivity and international competitiveness.

This, then, is the approach we must take: not addressing the problem of dislocated per se but rather setting up a national system embodying a sustained level of investment in all our nation's human resources. That will make dislocated workers part of the solution, not part of the problem in building the flexible, vibrant American economy I call the flexiconomy.

For Further Information

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